



Importance of Tax Incentives

Tax Revenue and Stabilization
Interim Committee

October 25, 2011

Why are Incentives Necessary?

- Signal a business friendly climate
 - Goal of increasing employment or investment
- Tool kit for economic developers
 - Increase the value of goods and services produced in New Mexico and the incomes derived from that production
- Fierce competition among states
 - Nationally a zero sum game; but
 - New Mexico must play
 - New Mexico can win
- Anti-donation clause/GRT dependency
 - Creates necessity for work-arounds
 - Ranked 51st by Ernst and Young – before apply various incentives
 - Incentives are an attempt to level the playing field

Testimonials

- “Not only did the tax credits drive PreCheck’s location selection but they enabled us to give New Mexico top priority as we restructured our operations, added 100 jobs in Alamogordo and planned our expansion for the next decade”
 - Bruce Butler, President PreCheck
- “Southwest Cheese was able to complete its one hundred million dollar expansion in March of 2010 in part because of strong community support and also because of the Economic Development Department and JTIP assistance. Our expansion project created 60 new high paying jobs in rural New Mexico”
 - Brenda Miller, Southwest Cheese HR Director
- “URENCO USA appreciates the multi-year support we have received from the State of New Mexico. The LEDA support and continued grant awards from the JTIP board have ensured job growth for New Mexicans in Lea County.”
 - Paul Mason, Chief Financial Officer, URENCO USA



Expenditure Policy Principles

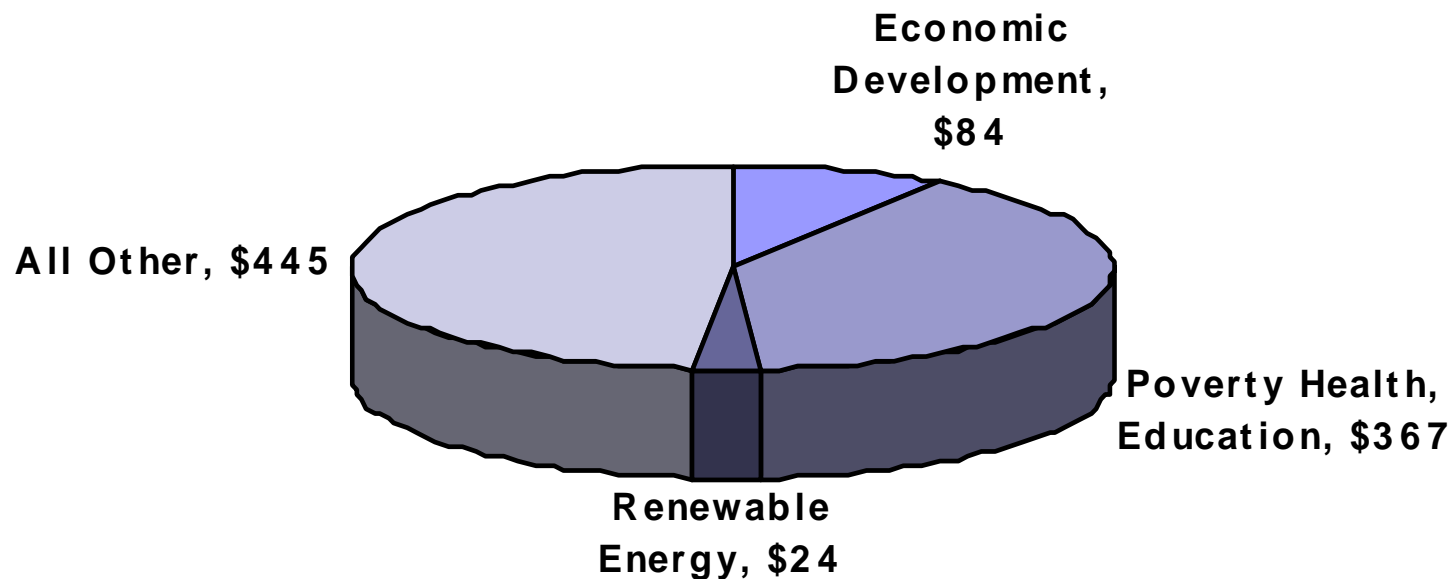
- Governor – Executive Order
- All tax expenditures, including business incentive tax credits, need to be evaluated periodically to insure that they meet their intended goals.
- Tax expenditures must be distinguished from tax exemptions and deductions that are needed to properly define the tax base (ie. pyramiding or to approximate retail sales base imposed in most other states)
- Quantitative analyses like “return on investment” (ROI) for business incentive tax credits require data, methodological tools and a commitment of resources.
- Balance accountability with efficiency
 - Reports can be burdensome, compromise propriety information
 - Understand the need for information against administrative and compliance costs to the enterprise and the state

SB 47 – 2010 Legislative Session

- Senator Keller
- Creates guidelines for NEW economic development incentives
- Requires ED to publish a list of taxpayers using any new economic development tax incentive
 - Track job creation
 - Track requirements for qualifying
 - How often the taxpayer reports
 - Mandatory review of the incentive every seven years
 - ED annually publish an aggregate list of incentives used by each taxpayer – on going forward basis
 - Nothing can conflict with current confidentiality rules or statutes
- Locomotive Fuel Tax example – 2011 legislative session
 - ED in the process of creating reporting formats, schedules and notifying UP of requirement to track capital investment and jobs for reports

Total All Credits, Deduction, Exemptions – Business Percentage

- Almost all ED tax expenditures created in last 10 years – many see little activity
- All Estimated for FY13 - \$922 Million



Source: LFC Hearing Brief, September 29, 2010

Chart in Millions



Key Incentives

- Rural Jobs Tax Credit
- High Wage Jobs Tax Credit
- Manufacturer's Investment Tax Credit
- Technology Jobs Tax Credit
- R & D Small Business Tax Credit
- Angel Investment Tax Credit – needs to be reauthorized
- Film Production Tax Credit



Other Specialized Incentives

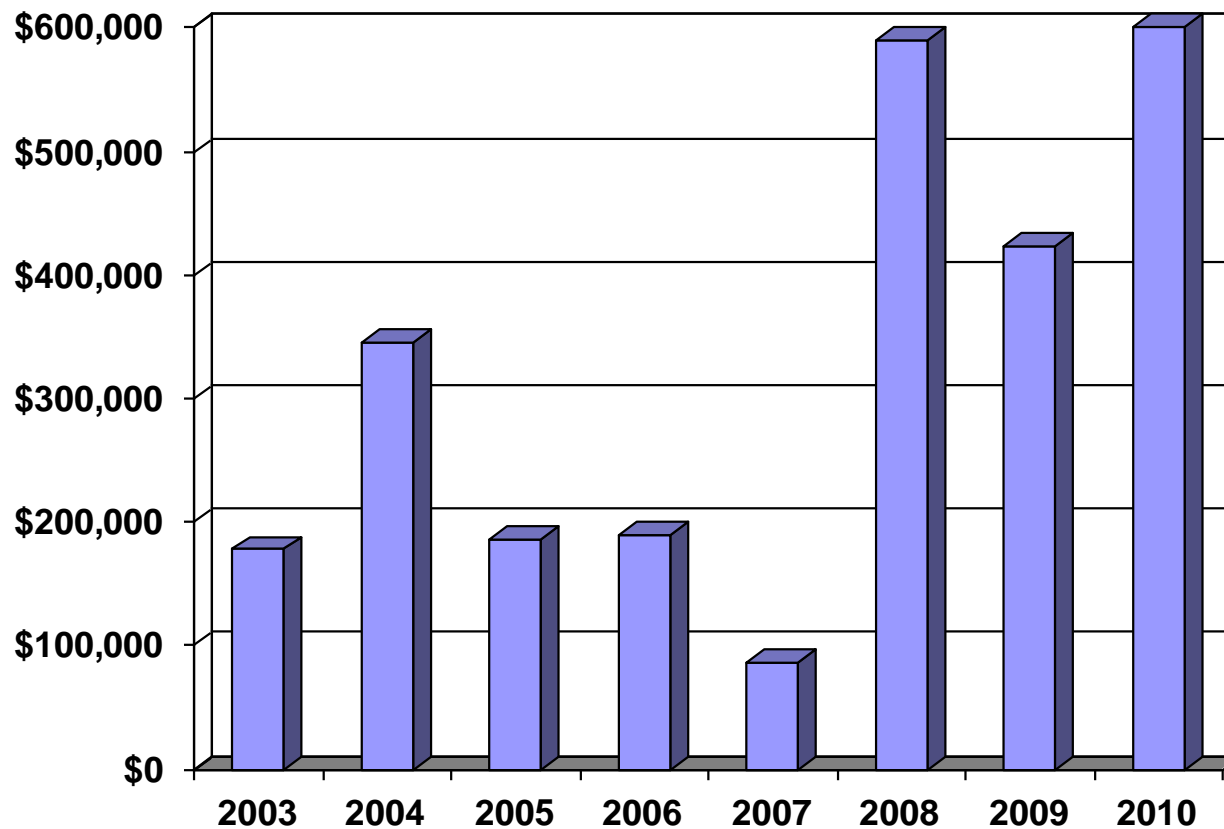
- Job Training Incentive Program
- 13 Renewable Energy & Energy Conservation Tax Reduction Programs
- 3 Aircraft and Aerospace Tax Deductions
- Space Gross Receipts Tax Deductions
- Several Military R & D
- Industrial Revenue Bonds



Rural Jobs Tax Credit

- Enacted in 1999
- 25% of the first \$16K per job (pop<15,000)
- Or 12.5% of first \$16K (pop>15,000)
- JTIP eligible employers
- Nonrefundable
- Transferable
- All CRS taxes except local options
- July 1, 2006 the sunset was repealed

Rural Jobs Tax Credit





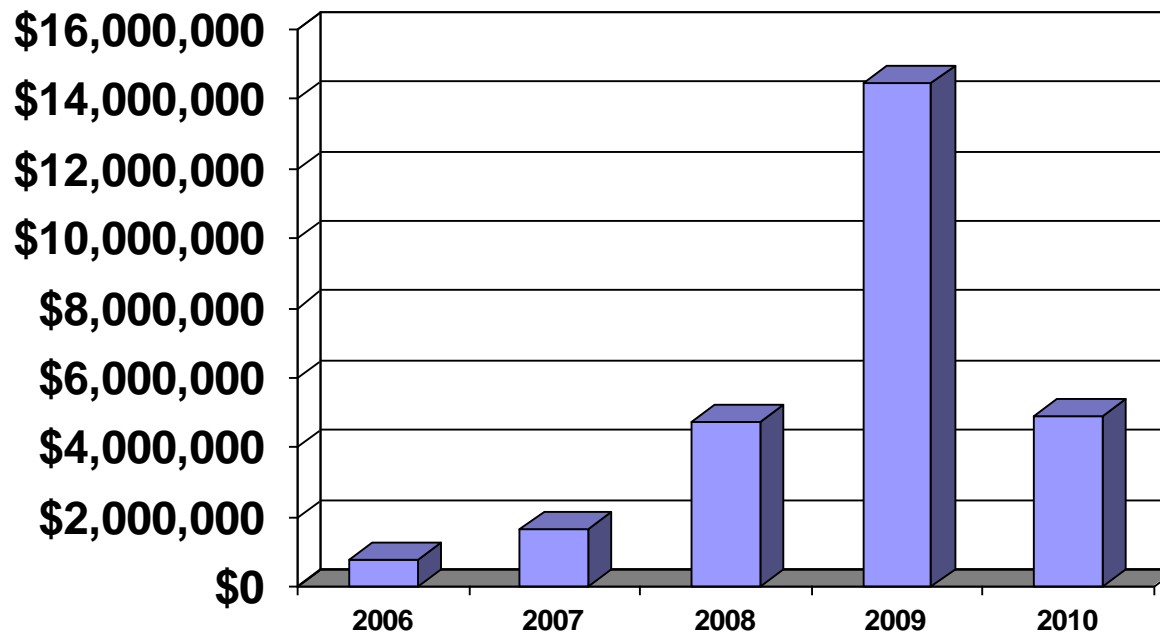
High Wage Jobs Tax Credit

- Enacted 2004

- ☐ 10% of eligible wages up to \$12,000 per employee
- ☐ Can be taken for 4 years
- ☐ Based on \$40K wages if pop>40,000
- ☐ Based on \$28K wages if pop<40,000
- ☐ Sunsets July 1, 2015
- ☐ 2012 Legislation:
 - Language must be clarified

High Wage Expenditures

High Wage Jobs Credit Enacted in 2004

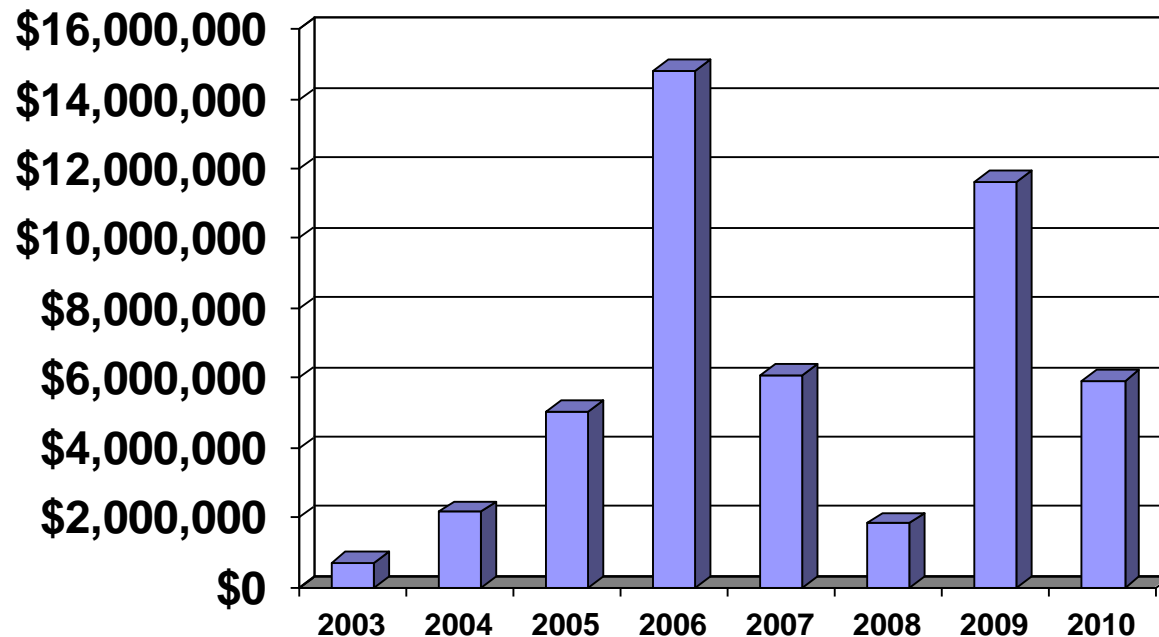




Manufacturer's Investment Credit

- Enacted 1979; amended various times
- 5.125% value of qualified equipment
- 85% of total liability
- Requires job creation
- Non-refundable
- All CRS taxes including withholding tax
- Sunsets July 1, 2020

Manufacturer's Investment Credit

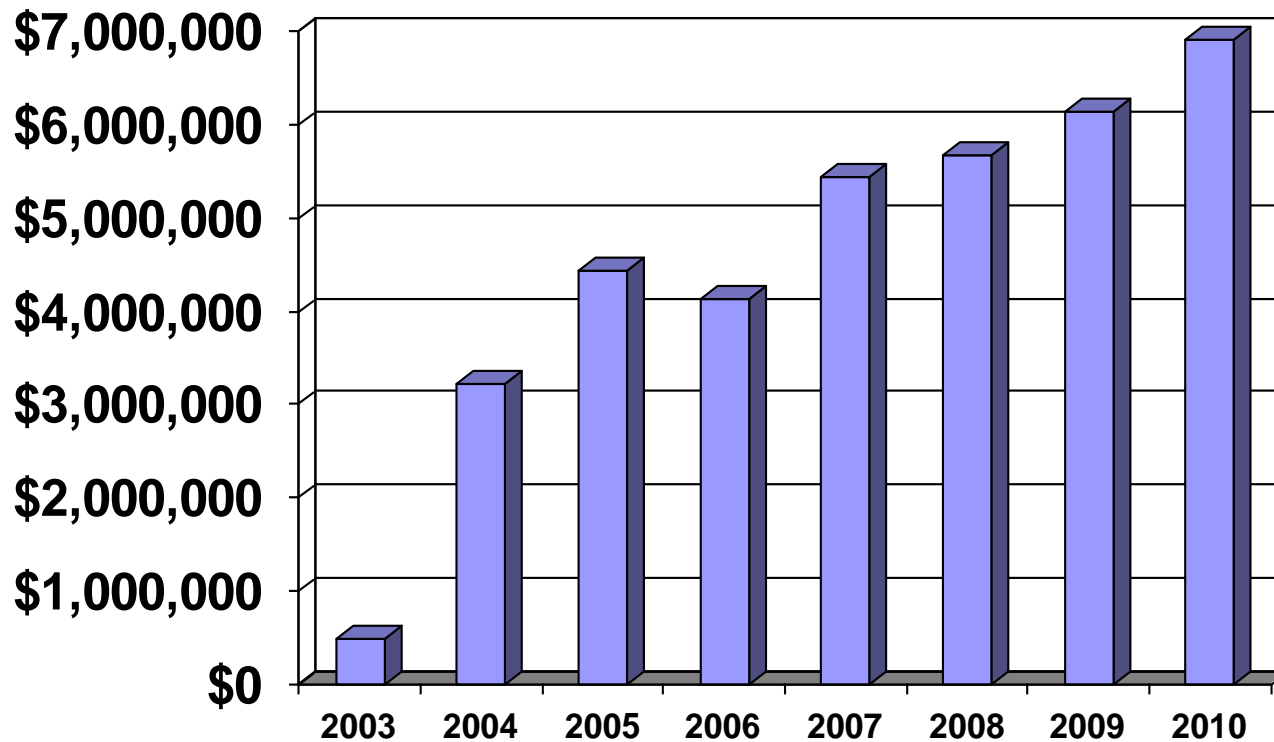




Technology Jobs Tax Credit

- Enacted in 2000
- Basic and “Additional” Credits
- Additional credit requires \$75K payroll increase for every \$1 Million in qualified expenses
 - 4% of qualified expenditures – Urban
 - 8% qualified expenditures – Rural
 - Recapture – applies to closure within 2 years

Technology Jobs Credit





Film Production Credit

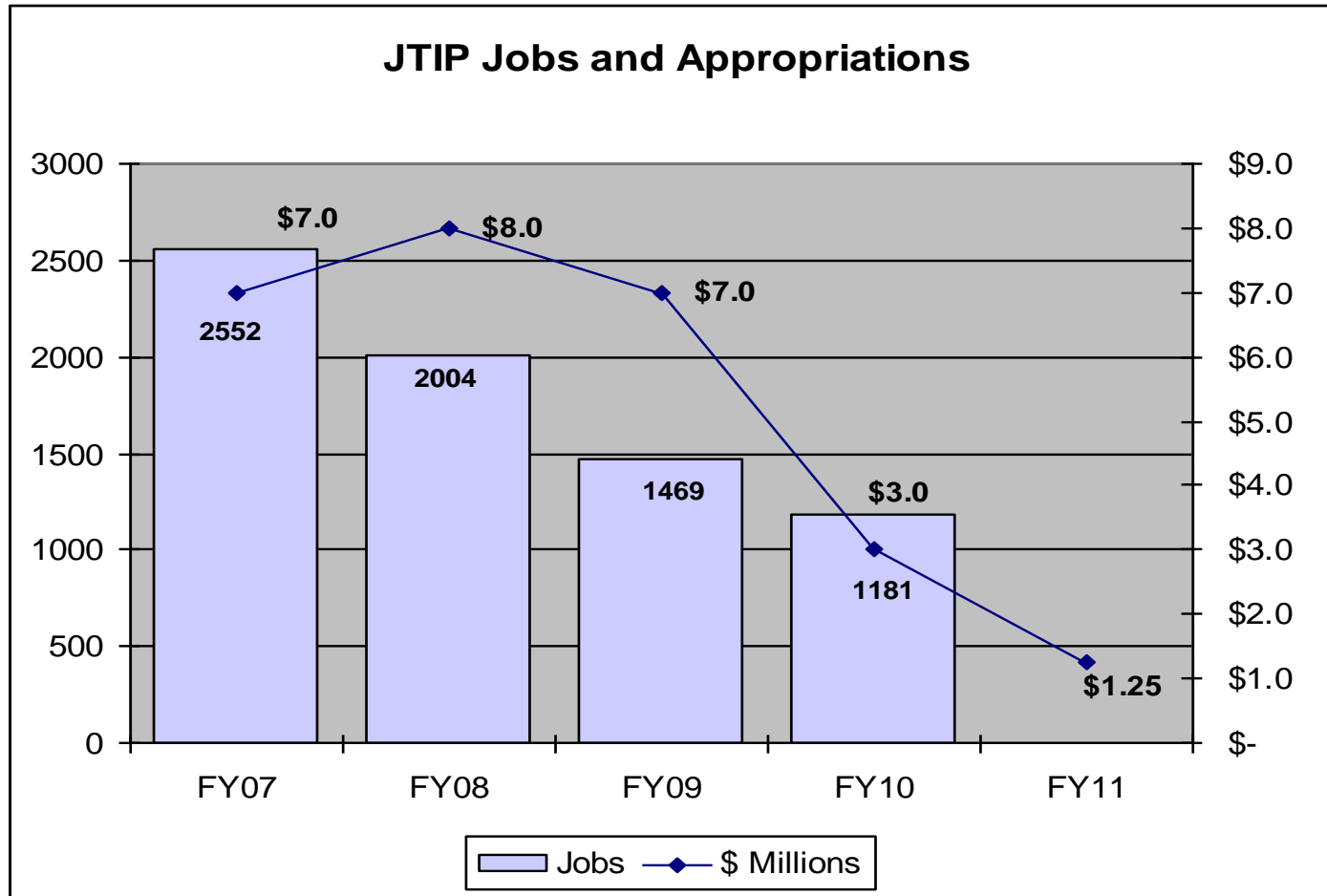
- Enacted January 1, 2002
- 25% of direct production and postproduction taxable expenditures made in NM
- Limit of \$5M per year on services of performing artists
- Film Office approves companies for eligibility; TRD reviews eligible expenses
- CIT, PIT and PTE taxpayers
- Refundable
- \$50M cap on total credits approved in any single fiscal year
- No sunset



JTIP – Powerful Incentive

- Since 1972
 - Helped create approximately 52,000 jobs
 - Assisted 1,000 companies/projects
- 700 jobs expected – remainder of FY12
- Not tax-based
- Wage subsidy
- Current balance: \$4.2M
- Pipeline:\$4.9M represents 9 projects
- Recent competition (examples)
 - Arizona has \$11M budget and a \$25M closing fund
 - Iowa adopted a sustainable funding source using CC bonding program, repaid by business diverting % of gross payroll from their state withholding generated by the new positions

JTIP and Historical Appropriations





Accountability

- Data is confidential and held by TRD
- Not all incentives marketed to a company are actually used
- Not only used by EDD: accountants, attorneys, market credits to gain clients
- Recapture exists in Technology Jobs Credit and JTIP – if company does not create jobs or if a company lays off within the year following training
- Others have job metrics built in that escalate with benefit
 - High Wage; Investment Credit; Technology Jobs Additional Credit,
 - Sunset provisions exist for many incentives